BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Financial Statements and Combining Information

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

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KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602-5145

Independent Auditors' Report

The Board of Trustees
BayCare Health System, Inc. and Affiliates:

We have audited the accompanying combined financial statements of BayCare Health System, Inc. and Affiliates (the Organization), which comprise the combined balance sheets as of December 31, 2016 and 2015, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of BayCare Health System, Inc. and Affiliates as of December 31, 2016 and 2015, and the changes in their net assets, and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

March 6, 2017
Certified Public Accountants

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Balance Sheets

December 31, 2016 and 2015

(In thousands)

Assets		**2016**	**2015**
Current assets:			
Cash and cash equivalents	$	46,299	98,585
Collateral received for securities lending transactions		193,757	195,426
Investments held on behalf of others		29,253	27,868
Short-term investments		1,291	—
Assets limited as to use		2,729	2,440
Accounts receivable, less allowance for uncollectible accounts of approximately $296,977 and $300,948, respectively		411,856	403,010
Inventories		88,534	78,792
Prepaid and other current assets		52,583	116,389
Total current assets		826,302	922,510
Investments		3,668,988	2,986,167
Assets limited as to use		171,097	135,251
Property and equipment, net		2,047,458	1,967,402
Beneficial interest in net assets of foundations		149,542	143,729
Other assets		98,559	82,242
Total assets	$	6,961,946	6,237,301
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	207,058	207,951
Employee compensation and benefits		268,283	250,838
Estimated third-party settlements		36,845	91,095
Current portion of long-term debt		24,189	89,393
Long-term debt, subject to short-term put arrangements		195,965	195,965
Liabilities for investments held on behalf of others		29,253	27,868
Liabilities under securities lending transactions		193,757	195,426
Total current liabilities		955,350	1,058,536
Long-term debt, less current portion		927,403	734,724
Other liabilities		391,946	373,409
Total liabilities		2,274,699	2,166,669
Net assets:			
Unrestricted		4,577,719	3,961,644
Temporarily restricted		75,577	76,579
Permanently restricted		33,951	32,409
Total net assets		4,687,247	4,070,632
Total liabilities and net assets	$	6,961,946	6,237,301

See accompanying notes to combined financial statements.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2016 and 2015

(In thousands)

		2016	2015
Operating revenue:			
Patient service revenue (net of contractual adjustments and discounts)	$	3,811,066	3,475,537
Provision for bad debts		(259,596)	(267,239)
Net patient service revenue less provision for bad debts		3,551,470	3,208,298
Other revenue		125,281	123,951
Total operating revenue		3,676,751	3,332,249
Operating expenses:			
Salaries and benefits		1,859,132	1,686,937
Supplies		681,134	592,410
Other expenses		574,278	533,717
Depreciation and amortization		207,180	197,003
Interest		36,222	30,452
Loss on sale of businesses		—	7,046
Total operating expenses		3,357,946	3,047,565
Operating income		318,805	284,684
Nonoperating gains (losses), net:			
Investment income (loss), net		281,362	(44,982)
Gain (loss) on interest rate swaps		4,859	(2,020)
Loss on extinguishment of debt		—	(36)
Other nonoperating gains, net		6,865	1,413
Total nonoperating gains (losses), net		293,086	(45,625)
Excess of revenue and gains over expenses	$	611,891	239,059

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BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2016 and 2015

(In thousands)

		2016	2015
Unrestricted net assets:			
Excess of revenue and gains over expenses	$	611,891	239,059
Net unrealized losses on other-than-trading securities		(28)	(21)
Net assets released from restrictions for capital additions		5,385	2,437
Amortization of accumulated hedge accounting losses		458	458
Pension-related changes other than net periodic pension cost		1,157	(3,448)
Other		(2,788)	(1,953)
Increase in unrestricted net assets		616,075	236,532
Temporarily restricted net assets:			
Contributions		355	2,320
Net unrealized gains (losses) on other-than-trading securities		38	(162)
Change in beneficial interest in net assets of foundations		(1,033)	(4,820)
Net assets released from restrictions for operations and capital additions		(360)	(273)
Other		(2)	3
Decrease in temporarily restricted net assets		(1,002)	(2,932)
Permanently restricted net assets:			
Change in beneficial interest of net assets of foundations		1,542	3,137
Increase in permanently restricted net assets		1,542	3,137
Increase in net assets		616,615	236,737
Net assets at beginning of year		4,070,632	3,833,895
Net assets at end of year	$	4,687,247	4,070,632

See accompanying notes to combined financial statements.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Cash Flows

Years ended December 31, 2016 and 2015

(In thousands)

		2016	2015
Cash flows from operating activities:			
Increase in net assets	$	616,615	236,737
Adjustments to reconcile increase in net assets to net cash provided by operating activities and nonoperating gains:			
Provision for bad debts		259,596	267,239
Depreciation and amortization		207,180	197,003
Amortization of bond premiums, net		(1,951)	(1,878)
Amortization of bond issue costs		588	686
Loss on extinguishment of debt		—	36
Loss on sale of property and equipment		2,239	2,342
Loss on sale of businesses		—	7,046
Change in net unrealized (gains) losses on investments		(202,467)	164,234
Net realized gains on investments		(13,364)	(61,830)
(Gain) loss on interest rate swaps		(5,317)	1,562
Change in beneficial interest in net assets of foundations		(5,813)	6,361
Restricted contributions		(355)	(2,158)
Pension-related changes other than net periodic pension cost		(1,157)	3,448
Changes in operating assets and liabilities, net of acquisition:			
Accounts receivable, net		(262,839)	(299,106)
Inventories		(7,866)	(13,179)
Prepaid expenses and other current assets		64,045	(66,059)
Accounts payable and accrued expenses		17,163	(5,810)
Employee compensation and benefits		17,089	34,613
Estimated third-party settlements		(54,250)	(23,623)
Other liabilities		25,060	8,534
Net cash provided by operating activities and nonoperating gains		654,196	456,198
Cash flows from investing activities:			
Purchases of property and equipment		(267,411)	(253,967)
Proceeds from sales of property and equipment		463	134
Payment for acquired business		(64,491)	—
Proceeds from sale of businesses		—	2,425
Purchases of assets limited as to use and investments		(1,439,818)	(1,417,222)
Proceeds from sales of assets limited as to use and investments		935,402	1,133,180
Decrease (increase) in other assets		1,990	(5,911)
Net cash used in investing activities		(833,865)	(541,361)
Cash flow from financing activities:			
Restricted contributions		355	2,158
Payment of debt issue costs		(2,213)	(338)
Proceeds from the issuance of debt		874,901	426,975
Repayments of long-term debt		(745,660)	(383,109)
Net cash provided by financing activities		127,383	45,686
Decrease in cash and cash equivalents		(52,286)	(39,477)
Cash and cash equivalents at beginning of year		98,585	138,062
Cash and cash equivalents at end of year	$	46,299	98,585
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	37,198	31,576
Purchase of equipment under capital lease obligations		—	207
Change in the acquisition of property and equipment through accrued expenses		(19,119)	7,226

See accompanying notes to combined financial statements.

(1) Organization

BayCare Health System, Inc. (BayCare), a not-for-profit corporation exempt from state and federal income taxes, was formed effective July 1, 1997, pursuant to a joint operating agreement (JOA) among Trinity Health BayCare Participants (Trinity Health), Morton Plant Mease Health Care, Inc. (MPMHC), South Florida Baptist Hospital, Inc. (SFB) (collectively, the Members), and BayCare.

The Members executed the JOA to develop a regional healthcare network providing for a collaborative effort in the areas of community healthcare delivery, enhanced access to healthcare services for the poor, and the sharing of other common goals. The JOA is effective for a period of 50 years.

The JOA provides for the Members to maintain ownership of their assets while agreeing to operate as one organization with common governance and management. All entities managed by BayCare are included in these combined financial statements. Terms of the JOA provide that residual free cash flow, as defined, and funding for capital expenditures are allocated among the Members based on predetermined percentages. Such allocations are eliminated in combination.

The Members' entities and BayCare operate a number of acute care hospital facilities in the Tampa Bay, Florida area, as well as a rehabilitation facility, a life care facility, home health agency, ambulatory care sites, and physician practices. The accompanying combined financial statements include the Members and various entities controlled by the Members, a wholly owned insurance company, and other related entities, hereafter referred to as the Organization.

Effective January 1, 2016, the Organization became the sole member of Bartow Regional Medical Center, Inc. (Bartow). Bartow owns and operations a 72-bed acute care hospital in Polk County, Florida with a medical staff comprised of 188 physicians. The acquisition allowed the Organization to advance its not-for-profit mission to improve the health of its communities with personalized, customer-centered health care delivery models in and around rural south Polk County and northern Hardee County (see note 6).

All significant intercompany transactions and balances among these entities and other wholly owned subsidiaries have been eliminated from the combined financial statements.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of these combined financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(b) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with a maturity of three months or less when purchased, except those classified as assets limited as to use and as investments that are held in the Organization's investment management program (Investment Pool).

(c) Securities Lending Transactions

The Organization participates in securities lending transactions whereby a portion of investments and assets limited as to use are loaned to various brokers in return for cash and securities from the brokers as collateral for the securities loaned. Pursuant to these arrangements, the collateral received must always equal at least 102% of the market value of the securities loaned, which is determined at the end of each business day. Collateral received for securities lending transactions and the related liabilities are considered Level 1 investments (note 2(p) for discussion of Level 1, Level 2, and Level 3 valuation methods). The collateral held for the securities loaned and related payable of equal value at December 31, 2016 and 2015 have been reflected in the accompanying combined balance sheets.

The securities on loan are included in the following classifications (in thousands):

	December 31	
	2016	**2015**
Equity securities:		
U.S.	$ 48,908	45,505
Global	35,005	36,748
U.S. Fixed income securities		
U.S.	83,620	106,572
Global	19,995	—
Total	$ 187,528	188,825

The Organization recorded net investment income of approximately $580,000 and $503,000 on these transactions for the years ended December 31, 2016 and 2015, respectively. Net investment income represents the amount received as investment income on the securities received as collateral, offset by the fees paid to the various brokers, and the investment earnings on the securities loaned to the brokers.

(d) Investments and Investment Income

The Organization has designated substantially all of its investments as trading. Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices. Investments in limited partnerships are reported using the estimated net asset value based on information provided by the respective partnership. Investments in closed-end limited partnerships where capital is called over time, redemptions are limited, and the Organization does not have significant influence over the partnerships, are recorded using the equity method. The Organization has committed $250,000,000 and $200,000,000 in capital to these limited partnerships, HarbourVest, Metropolitan Real Estate, and Park Street, as of December 31, 2016 and 2015, with $104,146,000 and $75,720,000 unfunded as of each year end, respectively.

Investment income (including realized gains and losses, unrealized gains and losses on trading securities, interest, and dividends) is included in excess of revenue and gains over expenses unless such earnings are subject to donor-imposed restrictions. Investment income restricted by donor stipulations is reported as an increase in temporarily restricted net assets. Unrealized gains and losses on investments classified as other-than-trading are reported as a change in unrestricted net assets.

The Organization holds certain investments on behalf of others in the Investment Pool. Certain affiliated, uncombined not-for-profit foundations are participants in the Investment Pool. The combined financial statements present investments held on behalf of others, at fair value, as a current asset with a corresponding current liability representing the obligation to return the value of the investments to the foundations in the Investment Pool. The investments held, and related liability of equal value at December 31, 2016 and 2015, have been reflected in the accompanying combined balance sheets.

(e) Assets Limited as to Use

Assets limited as to use include investments held by BCHS Insurance, Ltd. (Captive), a wholly owned insurance captive, as well as assets held by the life care facility as required under Florida Statutes, contractual obligation, or donor restrictions. Amounts required to meet current liabilities of the Organization have been classified as current assets in the combined balance sheets.

Assets limited as to use are set aside and designated as follows (in thousands):

		December 31	
		2016	**2015**
Captive	$	163,838	127,737
Other		9,988	9,954
		173,826	137,691
Less amount included in current assets		2,729	2,440
	$	171,097	135,251

(f) Inventories

Inventories consist primarily of medical and surgical supplies and pharmaceuticals and are valued at lower of cost (first-in, first-out method) or market.

(g) Property and Equipment

Property and equipment are recorded at historical cost at the date of acquisition or fair value at the date of donation.

Depreciation and amortization expense is calculated using the straight-line method over the estimated useful lives of the property and equipment or the lease term, whichever is less. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase capacities or extend useful lives are capitalized. Interest cost on borrowed funds during the construction period is capitalized as a component of the cost of the assets.

Property and equipment consist of the following (in thousands):

		December 31	
		2016	2015
Land	$	153,602	139,665
Land improvements		61,101	59,528
Buildings and improvements		2,381,838	2,286,328
Equipment		1,581,982	1,489,638
		4,178,523	3,975,159
Less accumulated depreciation and amortization		2,320,183	2,146,183
		1,858,340	1,828,976
Construction in progress		189,118	138,426
Property and equipment, net	$	2,047,458	1,967,402

The Organization recorded approximately $205,927,000 and $195,256,000 for depreciation expense for the years ended December 31, 2016 and 2015, respectively. Interest costs of approximately $2,161,000 and $1,334,000 were capitalized during the years ended December 31, 2016 and 2015, respectively. Included in buildings and equipment are assets leased under capital leases of approximately $7,514,000 and $7,684,000, net of accumulated amortization of approximately $10,754,000 and $9,526,000, at December 31, 2016 and 2015, respectively. Approximately $21,432,000 and $2,552,000 of fully depreciated assets were removed from the combined balance sheets in 2016 and 2015, respectively, as these assets were no longer utilized by the Organization.

The Organization had construction and information technology commitments of approximately $129,427,000 relating to various projects as of December 31, 2016. The Organization expects to fund the commitments through operations and unrestricted assets.

The Organization reviews whether events and circumstances have occurred to indicate if the remaining useful life of long-lived assets may warrant revision or that the remaining balance of an asset may not be recoverable. If such an event occurs, an assessment of possible impairment is based on whether the carrying amount of the assets exceeds the expected total undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the undiscounted cash flows are less than the net book value of the assets, an impairment loss based on the fair value of the assets is recognized. No impairments were recorded in 2016 and 2015.

The determination of fair value of long-lived assets involves certain judgments and estimates. These fair value estimates can change by material amounts in subsequent periods due to future financial conditions, changes in healthcare trends, and/or regulations and the nature of the ultimate disposition of such assets. In some cases, the fair value estimates assume the highest and best possible future use of assets to a marketplace participant. Accordingly, the ultimate cash realized from the assets could be

(Continued)

significantly different than their impaired value should the assets be sold or should the use be discontinued or changed.

(h) Beneficial Interest in Net Assets of Foundations

Beneficial interest in net assets of foundations primarily represents contributions received by affiliated fund-raising foundations on behalf of the Organization, net of expenses incurred by the foundations. The beneficial interest in net assets of foundations is recorded at fair value.

(i) Self-Insurance

The Organization is self-insured for professional liability, automobile insurance, workers' compensation, and employee health benefits. The provisions for estimated self-insured claims include estimates of the ultimate costs for both reported claims and claims incurred, but not reported, based on an evaluation of pending claims and past experience.

(j) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are maintained primarily for the purposes of patient care related services, capital improvements, and research and education. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity, the income from which is expendable to support the Organization's operations.

(k) Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. The Organization provides discounts to uninsured patients who do not qualify for Medicaid, charity care, or county funding.

Revenue from the Medicare and Medicaid programs accounted for approximately 34% and 9%, respectively, of the Organization's net patient service revenue for the years ended December 31, 2016 and 2015. The composition of patient service revenue (net of contractual adjustments and discounts) but before the provision for bad debts recognized from these major payor sources is as follows (in thousands):

		December 31	
		2016	**2015**
Third-party payors	$	3,719,688	3,360,046
Self-pay		91,378	115,491
Total all payors	$	3,811,066	3,475,537

The Organization analyzes its past collection history and identifies trends by each of its major payor sources of patient service revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about the major payor sources of patient service revenue in evaluating the adequacy of the allowance for doubtful accounts.

The Organization analyzes contractual amounts due from patients who have third-party coverage and provides an allowance for doubtful accounts and a provision for bad debts. For self-pay patients, which includes those patients without insurance coverage and patients with deductibles and copayment balances for which third-party coverage exists for a portion of the bill, the Organization records a significant provision for bad debts for patients that are unwilling to pay for the portion of the bill representing their financial responsibility. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted. The Organization follows established guidelines for placing certain past-due patient balances with collection agencies

The Organization’s allowance for uncollectible accounts for self-pay patients was 82% and 77% of self-pay accounts receivable as of December 31, 2016 and 2015, respectively. The Organization has not experienced significant changes in write-off trends and has not changed its uninsured discount policy for the years ended December 31, 2016 and 2015. Effective October 1, 2016, the System no longer pursues collection of amounts due from certain patients that fall under presumptive charity care specifications. Previously, collections were pursued and these accounts were included in revenue with a corresponding charge to bad debts if not collected. Under the new policy, such amounts are no longer recorded as revenue, which correspondingly reduces the provision for bad debts. As of December 31, 2016, there has not been a significant impact to net patient service revenue as a result of this policy change.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates associated with these programs will change by a material amount in the near term. As a result, provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined or as years are no longer subject to audits, reviews, and investigations. Net patient service revenue increased approximately $37,479,000 and $15,219,000 and during the years ended December 31, 2016 and 2015, respectively, due to final settlements on open cost report filings, specific settlement of certain appeal issues, and changes in recorded estimates for retroactive adjustments.

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Net patient accounts receivable included approximately $147,150,000 or 36% and $130,558,000 or 32% due from the Medicare program and approximately $38,819,000 or 9% and $43,439,000 or 11% due from the Medicaid program as of December 31, 2016 and 2015, respectively. The credit risk for other concentrations of receivables is limited due to the large number of insurance companies and other payors that provide payments for services.

(l) Community Commitment

The Organization exists to meet the healthcare needs of the community. Patients who are uninsured or underinsured and cannot pay for hospital services are eligible for either traditional or hardship charity consideration.

The Agency for Health Care Administration (AHCA) defines traditional charity care eligibility at 200% of the federal poverty guidelines, unless the amount due from the patient exceeds 25% of annual family income limited to four times the poverty level. In an effort to meet its mission, the Organization affords its patients a hardship charity, which is defined as 250% of the federal poverty guidelines. Accordingly, services are being provided to the community at no charge or for which costs exceed the payments received. Because payment is not pursued from patients meeting these guidelines, such amounts are not reported as net patient service revenue.

Payments received from Medicaid and other means-tested (based on patients' income level) programs are significantly less than established patient charges and are less than management's estimate of the costs of providing those services. These payments reduce the community commitment costs. An assessment of 1.0% to 1.5% of certain operating revenue earned and recorded is paid by several of the Organization's Hospitals to help fund the Florida Medicaid and indigent care program. The assessment has been included in the Medicaid and other means-tested program amounts below. Reimbursement received under the uncompensated and indigent care programs is included as subsidized costs.

Unbilled community services represent management's estimate of the cost of providing various programs to the community at no or little charge. Programs such as these include health screenings, educational programs, subsidized services, sponsorships, and research.

The tables below summarize the Organization's community commitment as measured by unreimbursed costs (estimated by the Organization's cost accounting system) (in thousands):

	December 31, 2016			
	Charity care	**Medicaid and other means-tested programs**	**Unbilled community services**	**Total**
Community commitment	$ 111,279	239,777	19,926	370,982
Subsidized costs	(1,500)	(22,695)	(952)	(25,147)
Net community commitment	$ 109,779	217,082	18,974	345,835

	December 31, 2015			
	Charity care	**Medicaid and other means-tested programs**	**Unbilled community services**	**Total**
Community commitment	$ 98,879	158,334	16,736	273,949
Subsidized costs	(2,178)	(4,572)	(940)	(7,690)
Net community commitment	$ 96,701	153,762	15,796	266,259

(m) Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that adopt and use electronic health records (EHR) in a meaningful way. Meaningful use is demonstrated by meeting established criteria that focus on capturing and using electronic health information to improve healthcare quality, efficiency, and patient safety.

The Organization records incentive payments under the grant accounting model. Revenue is recorded at the end of the EHR reporting period when it is reasonably assured that it has met the meaningful use requirements. The Organization recognized approximately $5,098,000 and $11,796,000 of incentive payments in other revenue for the years ended December 31, 2016 and 2015, respectively. Incentive payment revenue is subject to change as the result of audits of compliance with meaningful use criteria and Medicare cost reports, with changes recorded in the period they occur.

(n) Excess of Revenue and Gains over Expenses and Changes in Unrestricted Net Assets

Activities deemed by the Organization to be a provision of healthcare services are reported as operating revenue and expenses. Other activities that are peripheral to providing healthcare services are reported as nonoperating gains and losses. Consistent with industry practice, other changes in unrestricted net assets are excluded from excess of revenue and gains over expenses.

(o) Income Taxes

The majority of the affiliates within the Organization are not-for-profit organizations described in Section 501(c)(3) of the Internal Revenue Code, and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code, and are also exempt from state income taxes. Management believes that the unrelated business income generated by the Organization and its exempt affiliates is not material to the combined financial statements.

(p) Fair Value Measurements

Fair value guidance defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability under current market conditions, in the principal or most advantageous market to the asset or liability, in an orderly transaction between market participants on the measurement date.

It requires assets and liabilities to be grouped into three categories based on certain criteria as noted below:

- Level 1: Fair value is determined by using quoted prices for identical assets or liabilities in active markets.

  The Organization's Level 1 assets and liabilities include cash, trading and other-than-trading investments in U.S. and international equities, and mutual funds and are valued at quoted market prices.

- Level 2: Fair value is determined by using quoted prices for identical assets or liabilities in inactive markets, quoted prices for similar assets or liabilities in active markets, observable inputs other than quoted prices, and market corroborated inputs.

  The Organization's Level 2 assets include collective and common funds valued using the estimated net asset value per share (NAV) of the funds, U.S. and international equities, U.S. Treasuries, treasury inflation-protected securities, other government securities, corporate debt securities, global securities, derivatives, equity swaps, and asset-backed securities with fair values modeled by external pricing vendors. Level 2 liabilities include the Organization's interest rate swaps valued using widely accepted models that incorporate readily observable inputs in active markets (note 5).

- Level 3: Fair value is determined by using inputs based on various assumptions that are not directly observable.

The Organization's Level 3 assets include international equities, fixed income investments, and beneficial interest in net assets of foundations.

(3) Assets Limited as to Use, Investments, and Investments Held on Behalf of Others

The table below summarizes the fair values of assets limited as to use, investments, and investments held on behalf of others as of December 31, 2016 (in thousands). See note 2(p) for a discussion of valuation methodologies.

	December 31, 2016	Fair value measurements at reporting date		
		Level 1	Level 2	Level 3
Asset class:				
Cash	$ 5,086	5,086	—	—
Equity securities:				
U.S.	1,045,242	571,029	474,213	—
International	166,255	145,591	20,664	—
Fixed income securities:				
Core holdings	1,335,704	18,744	1,316,947	13
Bank Loan Funds	23,323	23,323	—	—
TIPS	15,624	—	15,624	—
	2,591,234	763,773	1,827,448	13
Accrued income	7,644			
Recorded at net asset value	1,167,224			
Recorded using equity method	107,256			
	3,873,358			
Less amount included in current assets	33,273			
	$ 3,840,085			

The table below summarizes the changes in Level 3 assets for the year ended December 31, 2016 (in thousands):

		Level 3	
	Fixed income securities	**Other**	**Total**
Beginning balance	$ 1,364	44	1,408
Total losses (realized/unrealized) included in excess of revenues and gains over expenses	(10)	—	(10)
Purchases	—	—	—
Sales	(1,329)	—	(1,329)
Settlements	(12)	(44)	(56)
Transfers into Level 3	—	—	—
Ending balance	$ 13	—	13

During 2016, there were no transfers into or out of Level 3. Transfers between Level 1 and Level 2 during the year are considered insignificant to the financial statements as a whole.

The table below summarizes the fair values of assets limited as to use, investments, and investments held on behalf of others as of December 31, 2015 (in thousands). See note 2(p) for a discussion of valuation methodologies.

	December 31, 2015	Fair value measurements at reporting date: Level 1	Level 2	Level 3
Asset class:				
Cash	$ 5,158	5,158	—	—
Equity securities:				
U.S.	763,412	437,992	325,420	—
International	130,419	116,076	14,299	44
Fixed income securities:				
Core holdings	1,166,435	13,470	1,151,601	1,364
Treasury Inflation (TIPS)	136,262	—	136,262	—
Other types of investments:				
Hedge funds	108	—	108	—
	2,201,794	572,696	1,627,690	1,408
Accrued income	8,318			
Recorded at net asset value	856,584			
Recorded using equity method	85,030			
	3,151,726			
Less amount included in current assets	30,308			
	$ 3,121,418			

The table below summarizes the changes in Level 3 assets for the year ended December 31, 2015 (in thousands):

		Level 3		
		Fixed income securities	**Other**	**Total**
Beginning balance	$	1,467	24	1,491
Total (losses) gains (realized/unrealized) included in excess of revenues and gains over expenses		(45)	44	(1)
Purchases		9	—	9
Sales		(9)	—	(9)
Settlements		(58)	(24)	(82)
Transfers into Level 3		—	—	—
Ending balance	$	1,364	44	1,408

During 2015, there were no transfers into or out of Level 3. Transfers between Level 1 and Level 2 during the year are considered insignificant to the financial statements as a whole. During 2016, the Organization re-evaluated the investments reported using the net asset value per share to determine as to whether they have a readily determinable fair value. Based on this re-evaluation, certain investments previously recorded as net asset value and excluded from the fair value hierarchy in the amount of $922,887 as of December 31, 2015, are now included as level 2 investments.

The following investments have been estimated using the net asset value per share of the investments as of December 31, 2016 and 2015 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2016 and 2015.

	December 31 2016	December 31 2015	Redemption frequency	Redemption notice period
Asset category:				
International small cap equity partnership (a)	$ 131,200	$ 125,024	Monthly	15 days
International emerging markets equity partnership (b)	144,184	113,629	Monthly	10 days
International equity partnership (c)	137,875	119,715	Monthly	15 days
Hedge fund of funds (d)	224,854	193,479	Semiannually	95 days
Real asset partnership (e)	—	18,565	Monthly	30 days
Global fixed income partnership (f)	158,038	164,336	Monthly	15 days
Private real estate investment trust (g)	123,486	77,482	Quarterly	90 days
Master limited partnership (MLP) (h)	247,587	44,354	Monthly	30 days
	$ 1,167,224	$ 856,584		

(a) The international small cap equity partnership's investment objective is to outperform the MSCI EAFE Small Cap Market Index by investing in a portfolio of non-U.S. small cap equities. Full redemptions from these funds may be paid out over the course of time to prevent large withdrawals from having adverse impacts on the partnership.

(b) The investment objective of the international emerging markets equity partnership is to outperform the MSCI Emerging Markets Index, net of dividend withholding taxes, by investing in a portfolio of non-U.S. emerging market equities. Full redemptions from these funds may be paid out over the course of time to prevent large withdrawals from having adverse impacts on the partnership.

(c) The primary objective of the international equity partnership is to achieve long-term total return by investing in value equity securities of non-U.S. issuers, including emerging markets.

(d) The hedge fund of funds' objective is to develop and actively maintain an investment portfolio of long-term returns, with low volatility and downside protection qualities.

(e) The real asset partnership seeks to generate a total return in the long-term through investments in commodity-related instruments globally.

(f) The investment objective of the global fixed income partnership is to outperform the Barclays Capital Multiverse Index by including exposure to the emerging market debt plus the ability to invest in other markets.

(g) The private real estate investment trust's primary objective is to invest in established core real estate with a diversified portfolio of high quality buildings in the most liquid markets in the United States.

(h) The master limited partnership's investment objective is to seek absolute total return by investing directly or via long only equity swaps without leverage in income-producing publicly traded MLPs, with a particular focus on energy sector MLPs.

Investment income and gains and losses on assets limited as to use and investments comprise the following (in thousands):

		Year ended December 31	
		2016	**2015**
Investment (loss) income:			
Interest and dividends	$	65,541	57,239
Realized gains, net		13,364	61,830
Change in net unrealized gains (losses) on trading investments		202,457	(164,051)
		281,362	(44,982)
Other changes in net assets:			
Changes in net unrealized gains (losses) on other-than-trading securities		10	(183)
Total investment return	$	281,372	(45,165)

Investment income is recorded net of investment expense, which was approximately $9,065,000 and $7,377,000 during the years ended December 31, 2016 and 2015, respectively.

(4) Debt and Capital Leases

BayCare has $125,000,000 available under a line of credit with a bank. At December 31, 2016 and 2015, $0 and $66,300,000 of the available line of credit had been drawn, respectively. Interest on the line of credit is based on the LIBOR daily floating rate plus a spread, which was approximately 1.14% and 0.80% as of December 31, 2016 and 2015, respectively, and is payable monthly.

The Organization has a BayCare Obligated Group, which consists of certain members of the Organization (collectively, the Obligated Entities). The BayCare Obligated Group includes BayCare; St. Joseph's Health Care Center, Inc.; St. Joseph's Hospital, Inc.; St. Anthony's Hospital, Inc.; MPMHC; Morton Plant Hospital Association, Inc.; Trustees of Mease Hospital, Inc.; SFB; Winter Haven Hospital, Inc.; and Bartow Regional Medical Center, Inc. All of the outstanding bonds of the Obligated Entities are subject to the Master Trust Indenture and constitute BayCare Obligated Group indebtedness. The covenants in connection with the long-term debt agreements described below provide for the maintenance of certain levels of debt coverage and working capital, certain restrictions on additional indebtedness, and certain types and amounts of insurance protection.

The Organization is obligated under long-term debt as follows (in thousands):

		December 31	
		2016	**2015**
City of Tampa, Florida, Health System Revenue Bonds, Series 2016A, at rates from 3.125% to 5.00%, payable through 2046			
Principal Amount	$	200,000	—
Net unamortized premium and debt issuance costs		16,030	—
Debt net unamortized premium and debt issuance costs		216,030	—
Polk County Industrial Development Authority Health System Revenue Bonds, Series 2014A, interest rate determined on a weekly basis (approximately 1.00% at December 31, 2016) payable through 2044			
Principal Amount		100,000	100,000
Unamortized debt issuance costs		(1,410)	(1,460)
Debt less unamortized debt issuance costs		98,590	98,540
City of Tampa, Florida, Health System Revenue Bonds, Series 2012A, at rates from 3.25% to 5.00%, payable through 2033			
Principal Amount		188,625	188,625
Net unamortized premium and debt issuance costs		7,403	7,944
Debt net unamortized premium and debt issuance costs		196,028	196,569
City of Tampa, Florida, Health System Revenue Bonds, Series 2012B, interest rate determined on a weekly basis (approximately 1.02% at December 31, 2016) payable through 2033			
Principal Amount		77,215	77,215
Unamortized debt issuance costs		(586)	(621)
Debt less unamortized debt issuance costs		76,629	76,594
City of Tampa, Florida, Health System Revenue Bonds, Series 2012 C, D, and E, interest rate determined on a monthly basis (approximately 1.18% at December 31, 2016) payable through 2034			
Principal Amount		177,215	177,215
Unamortized debt issuance costs		(190)	(240)
Debt less unamortized debt issuance costs		177,025	176,975

(Continued)

		December 31	
		2016	**2015**
City of Tampa, Florida, Health System Revenue Bonds, Series 2010, at rates from 3.25% to 5.00%, payable through 2023			
Principal Amount		140,890	157,420
Net unamortized premium and debt issuance costs		1,343	2,185
Debt net unamortized premium and debt issuance costs		142,233	159,605
Pinellas County Health Facilities Authority Revenue Bonds, Series 2009A, interest rate determined on a weekly basis (approximately 0.82% at December 31, 2016) payable through 2038			
Principal Amount		200,000	200,000
Unamortized debt issuance costs		(314)	(327)
Debt less unamortized debt issuance costs		199,686	199,673
Pinellas County Health Facilities Authority Revenue Bonds, Series 2003A, at rates from 1.07% to 5.00%, payable through 2033 (net of unamortized premium and debt			
Principal Amount		31,775	35,950
Unamortized debt issuance costs		(455)	(521)
Debt less unamortized debt issuance costs		31,320	35,429
Other		10,016	76,697
		1,147,557	1,020,082
Less current portion of long-term debt		(24,189)	(89,393)
Less long-term debt subject to short-term put arrangements		(195,965)	(195,965)
Long-term debt, less current portion and debt subject to short-term put arrangements	$	927,403	734,724

(Continued)

Aggregate scheduled maturities of long-term debt and capital lease obligations as of December 31, 2016 follow (in thousands):

2017	$	24,189
2018		24,581
2019		25,257
2020		26,324
2021		27,565
Thereafter		997,820
		1,125,736
Unamortized premium and debt issue costs, net		21,821
	$	1,147,557

In March 2016, the Organization issued $200,000,000 of City of Tampa, Florida Health System Revenue Bonds (the Series 2016A Bonds). The Series 2016A Bonds were used for (1) reimbursing the cost of construction, equipping, and installation of certain capital improvements to healthcare facilities owned and operated by certain Members of the Obligated Group and (2) paying costs associated with the issuance of the Series 2016A Bonds.

The Series 2014A Bonds were issued as window variable rate demand bonds (VRDB). These bonds are subject to long-term amortization periods and may be put to the Organization at the option of the bondholders in connection with certain remarketing arrangements. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after December 31, 2016, the principal amount of such bonds has been classified as a current obligation in the accompanying combined financial statements.

The 2012B Bonds were issued as window variable rate demand bonds. These bonds are subject to long-term amortization and may be put to the Organization at the option of the bondholders in connection with certain remarketing arrangements. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after December 31, 2016, the principal amount of such bonds has been classified as a current obligation in the accompanying combined financial statements.

The principal and interest payments on the Series 2009A Bonds are secured by credit facilities with "banks," which expire in 2020 and 2022, unless extended by agreement between the banks and the Organization. Amounts drawn on the 2009A1 credit facility agreement are payable by the Organization in eight equal quarterly installments commencing on the three hundred sixty-seventh (367th) day following the date on which amounts are drawn. Amounts drawn on the 2009A2 credit facility agreement are payable by the Organization in 12 equal quarterly installments commencing on the first day of the fourth month following the date on which amounts are drawn. These amounts have been classified as a current obligation in the accompanying combined financial statements. The 2009A-3 bonds had a mode conversion in December 2015 from a weekly VRDB to a direct placement that expires in 2025.

(Continued)

The table below summarizes the carrying amount and fair value of the Organization's debt as of December 31, 2016 and 2015 (in thousands):

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Debt	$ 1,147,557	1,161,962	1,020,082	1,047,779

Fair values of the Organization's debt are based upon the quoted market prices for the same or similar issues or on the current rates offered to the Organization for debt and capital lease obligations of the same remaining maturities.

Debt issue costs, net of accumulated amortization, are being amortized utilizing methods that approximate the effective interest method over the life of the debt. Amortization of debt issuance costs is included in interest expense. Unamortized debt issue costs are included with the related debt in the combined balance sheets.

Bond discounts and premiums are being amortized using the effective interest method over the life of the related debt. Amortization of bond discounts and premiums is included in interest expense. Unamortized bond premiums are included with the related debt in the combined balance sheets.

(5) Interest Rate Swap Agreements

The Organization uses interest rate swaps to manage net exposure to interest rate changes related to its borrowings and to manage its overall borrowing costs. These swaps are recorded as other liabilities at fair value.

The Organization's interest rate swap contracts are as follows:

Expiration date	The Organization pays fixed payor rate	The Organization receives	Notional amount 2016	Notional amount 2015
November 2033	3.669%	67% of 3-month USD-LIBOR	$ 77,215,000	77,215,000
November 2033	3.669	67% of 3-month USD-LIBOR	77,215,000	77,215,000
September 2034	3.476	67% of 1-month USD-LIBOR	5,949,237	6,149,220
September 2034	5.076	67% of 1-month USD-LIBOR plus 160 bps	17,849,763	18,449,780
September 2034	3.457	67% of 1-month USD-LIBOR	11,901,000	12,301,000
September 2036	3.841	67% of 1-month USD-LIBOR	13,700,000	13,900,000
November 2038	2.222	67% of 3-month USD-LIBOR	75,000,000	75,000,000
November 2038	2.222	67% of 3-month USD-LIBOR	75,000,000	75,000,000
November 2038	2.222	67% of 3-month USD-LIBOR	50,000,000	50,000,000
			$ 403,830,000	405,230,000

An interest rate swap is an agreement in which two parties agree to exchange, at specified intervals, interest payment streams calculated on an agreed upon notional principal amount with at least one stream based upon a specified floating rate index. The differential to be paid or received as interest rates change is recognized as an adjustment to interest expense, which amounted to an increase of approximately $9,986,000 and $11,222,000 for the years ended December 31, 2016 and 2015, respectively.

The fair value of the interest rate swap agreements at December 31 is as follows (see note 2(p) for a discussion of valuation methodologies):

Derivatives not designated as hedging instruments	Counterparty	Balance sheet location	2016	2015
Interest rate swap contracts	Morgan Stanley	Other liabilities	$ 41,215,000	44,987,000
Interest rate swap contracts	Goldman Sachs	Other liabilities	21,629,000	23,174,000

During 2008, the Organization discontinued hedge accounting for all swaps previously designated as hedges as the swaps were no longer considered to be highly effective. The Organization continues to carry the swaps at fair value with the subsequent changes in fair value included in nonoperating (losses) gains, net. Losses of approximately $7,673,000 and $8,131,000 at December 31, 2016 and 2015, respectively, that were accumulated in unrestricted net assets prior to the discontinuance of hedge accounting are being amortized in nonoperating (losses) gains, net using the straight-line method over the remaining life of the swaps.

The change in fair value of the interest rate swaps resulted in gains of approximately $5,317,000 and losses of approximately $1,562,000 for the years ended December 31, 2016 and 2015, respectively, included in nonoperating (losses) gains, net.

(6) Business Acquisitions – Bartow Regional Medical Center, Inc.

On January 1, 2016, the Organization acquired substantially all of the assets and related working capital of Bartow Regional Medical Center, a general acute care hospital, together with certain related businesses including physician clinic operations and ancillary services for a purchase price of approximately $64,491,000. The fair value of the consideration paid exceeded the fair value of the assets acquired and liabilities assumed, resulting in goodwill of approximately $18,119,000 recorded to other assets in the combined balance sheet. Acquisition costs of $185,000 and $252,000 were included in other expenses in the combined statements of operations and changes in net assets for the years ended December 31, 2016 and 2015, respectively.

Opening balance sheet information for Bartow at January 1, 2016 is shown below (in thousands):

Assets		
Current assets:		
Cash and cash equivalents	$	1
Accounts receivable, less allowance for uncollectible accounts		5,603
Inventories		1,876
Prepaid and other current assets		239
Total current assets		7,719
Property and equipment		40,441
Other assets		19,561
Total assets		67,721
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses		1,063
Employee compensation and benefits		357
Current portion of long-term debt		224
Total current liabilities		1,644
Long-term debt, less current portion		1,586
Other liabilities		—
Total liabilities		3,230
Cash paid for acquisition	$	64,491

The acquisition of Bartow added $47,436,000 of operating revenues and $855,000 deficit of revenues and gains over expenses to the Organization’s combined results for the year ended December 31, 2016.

The following table represents the unaudited pro forma amounts had the Organization owned Bartow as of January 1, 2015 (in thousands). The pro forma information is for comparative purposes and is not necessarily indicative of future results or the historical results that would have been obtained had the acquisition occurred on that date.

		Year ended December 31, 2015
Operating revenues	$	3,379,216
Excess of revenues and gains over expenses		241,745

(7) Goodwill

Goodwill of approximately $28,839,000 and $11,301,000 at December 31, 2016 and 2015, respectively, included in other assets, results from the excess of the amount paid over the fair value of identifiable assets and liabilities of acquired healthcare businesses. The Organization reviews goodwill for impairment at least annually or whenever events or circumstances indicate that the carrying value may not be recoverable in accordance with the provisions of Accounting Standards Codification Topic 350, *Intangibles Goodwill and Other*.

The annual impairment test was completed for the years ended December 31, 2016 and 2015 and it was determined that no impairment existed. No recent events or circumstances have occurred to indicate that impairment may exist.

(8) Commitments and Contingencies

(a) Professional Liability

The nature of the Organization's business inherently subjects the Organization to the risks of professional liability litigation. Estimated losses arising from events identified under the Organization's incident reporting system have been recorded in the accompanying combined financial statements. In addition, an accrual for possible losses attributable to incidents that may have occurred, but that have not been identified under the incident reporting system has been estimated. The estimate is valued at the undiscounted expected future cash flows based on historical experience, relevant trend factors, and advice from consulting actuaries. The Organization is presently a defendant in various professional liability related legal actions. The Organization may be liable for losses in excess of the amount recorded at December 31, 2016; however, in the opinion of management, adequate provision has been made for estimated losses from asserted and unasserted claims.

The Organization's entities are insured through an insurance agreement with the Captive. The Captive also provides professional liability insurance for Florida-licensed, practicing physicians, and allied healthcare professionals who meet the company's underwriting requirements and have privileges to treat patients at the Organization's affiliated facilities.

Claims of approximately $174,554,000 and $155,849,000 at December 31, 2016 and 2015, respectively, are accrued based upon the expected ultimate costs of the experience to date of the

(Continued)

Captive (including a provision for unknown incidents) at December 31, 2016 and 2015, and are included in other long-term liabilities.

(b) Litigation and Investigations

Certain of the Organization's affiliated entities currently are the subject of litigation other than professional liability litigation, as well as inquiries by federal agencies. The litigation generally involves matters of healthcare and employment law, as well as certain matters that arise in the ordinary course of business. The inquiries generally involve the application of complex healthcare regulations. The Organization is fully cooperating with the federal agencies in connection with their inquiries. Based on current information, management believes at this time that the results of the litigation and inquiries are not likely to have a material adverse effect on the combined financial position and results of the Organization.

(c) Operating Leases

The Organization has entered into noncancelable operating lease agreements for the rental of building space, computer software, and equipment. Future minimum lease payments associated with these lease agreements (with initial or remaining lease terms in excess of one year) for each of the five years subsequent to December 31, 2016 are (in thousands) as follows:

2017	$	14,235
2018		13,374
2019		11,303
2020		9,786
2021		8,481
Thereafter		19,333
Total	$	76,512

Rental expense for operating leases totaled approximately $27,168,000 and $25,748,000 for the years ended December 31, 2016 and 2015, respectively.

(9) Retirement Plans

(a) Pension Plans – BayCare

Effective October 1, 2001, the Organization's board of trustees approved a system wide BayCare Health System Retirement Plan (Retirement Plan), a defined contribution plan that covers substantially all employees who meet certain service requirements. For these employees, the Retirement Plan provides that the Organization will contribute 2% of wages and also match 50% of the employee's contributions up to 6% of the contributing employee's wages. Prior existing defined contribution plans were rolled into the Retirement Plan. Contribution expense attributable to the defined contribution plan was approximately $52,059,000 and $45,529,000 for the years ended December 31, 2016 and 2015, respectively.

Employees who were participants in the Organization's defined benefit pension plan were given a one-time option to remain in the defined benefit pension plan or participate in the Retirement Plan.

For participants who elected to participate in the Retirement Plan, the Organization froze their benefits so the participants no longer earn additional benefits for future services in the defined benefit pension plan. Effective December 31, 2016, the Organization froze the defined benefit pension plan, providing that no further benefits will accrue for remaining plan participants for services after the effective date.

The authoritative guidance for the accounting of defined benefit pension and other postretirement plans requires recognition in the combined balance sheets of the funded status of defined benefit pension plans and the recognition in unrestricted net assets of unrecognized gains or losses, prior service costs or credits, and transition assets or obligations existing at the time of adoption. The funded status is measured as the difference between the fair value of the defined benefit pension plan's assets and the projected benefit obligation of the plan. The valuation of plan assets and the calculation of benefit obligations and funded status utilized a measurement date of December 31, 2016 and 2015.

The following are deferred pension costs, which have not yet been recognized in periodic pension expense, but instead are accrued in unrestricted net assets as of December 31, 2016 (in thousands):

	Amounts recognized in unrestricted net assets at December 31, 2016	Amounts in unrestricted net assets to be recognized during the next fiscal year
Net actuarial loss	$ 31,800	2,999

Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees.

The following table sets forth changes to the defined benefit pension plan's benefit obligation, plan assets, and funded status (included in other noncurrent liabilities) as of December 31, 2016 and 2015, the measurement dates (in thousands):

		Year ended December 31	
		2016	**2015**
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	(170,140)	(173,768)
Service cost		(1,436)	(1,564)
Interest cost		(6,907)	(6,400)
Actuarial (loss) gain		(3,960)	3,597
Benefits paid		9,846	7,995
Curtailments		1,268	—
Projected benefit obligation at end of year		(171,329)	(170,140)
Change in plan assets:			
Fair value of plan assets at beginning of year		114,591	122,404
Actual return on plan assets		7,806	(1,318)
Contributions made		2,465	1,500
Benefits paid		(9,846)	(7,995)
Fair value of plan assets at end of year		115,016	114,591
Net amount recognized as accrued pension cost included in other noncurrent liabilities	$	(56,313)	(55,549)

The accumulated benefit obligation for the pension plan was approximately $171,330,000 and $168,263,000 at December 31, 2016 and 2015, respectively.

The following table summarizes components of net periodic pension cost of the defined benefit pension plan (in thousands):

		Year ended December 31	
		2016	**2015**
Service cost	$	1,436	1,564
Interest cost		6,907	6,400
Expected return on plan assets		(5,515)	(6,531)
Amortization of net actuarial loss		2,679	2,192
Net periodic pension cost	$	5,507	3,625

(Continued)

Weighted average assumptions used to determine net periodic pension cost of the defined benefit pension plan are as follows:

	Year ended December 31	
	2016	**2015**
Discount rate	4.22%	3.81%
Projected rate of increase in future compensation levels	3.00	3.00
Expected long-term rate of return on plan assets	5.10	5.60

Weighted average assumptions used to determine benefit obligations of the defined benefit pension plan are as follows:

	Year ended December 31	
	2016	**2015**
Discount rate	4.03%	4.22%
Projected rate of increase in future compensation levels	N/A	3.00

The Organization expects to contribute to the SJH-SAH Plan in 2017, but the amount of the contribution has not yet been determined.

The benefits expected to be paid in each year from 2017 to 2021 are approximately $13,431,000, $12,688,000, $11,988,000, $11,876,000, and $11,976,000, respectively. The aggregate benefits expected to be paid in the five years from 2022 to 2026 are approximately $51,478,000. The expected benefits to be paid are based on the same assumptions used to measure the Organization's benefit obligation at December 31, 2016 and include estimated future employee service.

The investment objective of the defined benefit plan is to produce a return on investment that is based upon levels of liquidity and investment risk that are prudent and reasonable, given prevailing capital market conditions, which allows for payments of benefits to participants and their beneficiaries. The investment objective also incorporates the financial condition of the plan, future growth of active and retired participants, inflation, and the rate of salary increases. The defined benefit plan's investment committee has selected market-based benchmarks to monitor the performance of the investment strategy and performs periodic reviews of investment performance.

The investment strategy has a current target asset allocation policy as follows: 40% fixed income, 25% domestic equities, 15% international equities, 10% hedge funds, and 10% Master Limited Partnerships (MLPs). The expected long-term rate of return on plan assets is based primarily on expectations of future returns for the defined benefit plan's investments, based upon the target asset allocation. Additionally, the historical returns on comparable equity and fixed income investments are considered in the estimate of the expected long-term rate of return on plan assets.

(Continued)

The table below summarizes the fair values of pension plan assets as of December 31, 2016 (in thousands) (note 2(p) for discussion of valuation methods):

		December 31, 2016	Fair value measurements at reporting date Level 1	Level 2
Asset category:				
Cash	$	90	90	—
Equity securities:				
U.S.		36,013	6,705	29,308
International		4,088	4,088	
Fixed income Securities:				
Core holdings		19,175	—	19,175
Long Duration		18,201	—	18,201
Bank Loan Fund		2,272	2,272	—
		79,839	13,155	66,684
Accrued income		14		
Recorded at net asset value		35,163		
Total	$	115,016		

There were no transfers between levels during 2016.

The table below summarizes the fair values of pension plan assets as of December 31, 2015 (in thousands):

		December 31, 2015	Fair value measurements at reporting date Level 1	Level 2
Asset category:				
Cash	$	80	80	—
Equity securities:				
U.S.		33,843	6,030	27,813
International		5,923	5,923	—
Fixed income Securities:				
Core holdings		25,171	—	25,171
Long Duration		15,078	—	15,078
Treasury Inflation (TIPS)		4,804	—	4,804
		84,899	12,033	72,866
Accrued income		2		
Recorded at net asset value		29,690		
Total	$	114,591		

There was a transfer of U.S. equities from level 1 to level 2 during 2015 due to pricing being available from an industry vendor instead of an exchange. There was also a transfer from level 2 to level 1 during 2015 due to the fund becoming registered on an exchange in 2015. During 2016, the Organization re-evaluated the investments reported using the net asset value per share to determine as to whether they have a readily determinable fair value. Based on this re-evaluation, certain investments previously recorded as net asset value and excluded from the fair value hierarchy in the amount of $78,676 as of December 31, 2015, are now included as level 2 investments.

The following pension plan assets have been estimated using the net asset value per share of the investments as of December 31, 2016 and 2015 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2016 and 2015.

	December 31		Redemption	Redemption
	2016	**2015**	**frequency**	**notice period**
Asset category:				
International small cap equity partnership (a)	4,178	6,105	Monthly	15 days
International emerging markets equity partnership (b)	4,218	5,169	Monthly	10 days
International equities partnership (c)	4,196	5,879	Monthly	15 days
Hedge fund of funds (d)	11,607	12,537	Semiannually	95 days
Master limited partnership (MLPs) (e)	10,964	—	Monthly	30 days
	$ 35,163	29,690		

(a) The international small cap equity partnership's investment objective is to outperform the MSCI EAFE Small Cap Market Index by investing in a portfolio of non-U.S. small cap equities.

(b) The investment objective of the international emerging markets equity partnership is to outperform the MSCI Emerging Markets Index, net of dividend withholding taxes, by investing in a portfolio of non-U.S. emerging market equities.

(c) The primary objective of the international equity partnership is to achieve long-term total return by investing in value equity securities of non-U.S. issuers, including emerging markets.

(d) The hedge fund of funds' objective is to develop and actively maintain an investment portfolio of long-term returns, with low volatility and downside protection qualities.

(e) The master limited partnership's investment objective is to seek absolute total return by investing directly or via long only equity swaps without leverage in income-producing publicly traded MLPs, with a particular focus on energy sector MLPs.

(b) Pension Plan – Winter Haven

Qualified employees of Winter Haven participate in the Mid-Florida Medical Services, Inc. Pension Plan (the Plan) – a cash balance hybrid multiemployer plan. A qualified employee is one who is over the age of 21, has received credit for at least 1,000 hours of service in a 12-month period, and was not over the age of 60 when hired. The Plan is funded to at least the minimum required Employee Retirement Income Security Act (ERISA) contribution.

On November 26, 2013, the Organization's board approved freezing the Plan, effective December 31, 2013. The terms of the freeze generally provide that no further benefit accrual under the Plan is provided for service after the effective date nor will new entrants into the Plan be permitted after the effective date.

The following are deferred pension costs, which have not yet been recognized in periodic pension expense, but instead are accrued in unrestricted net assets as of December 31, 2016 (in thousands):

	Amounts recognized in unrestricted net assets at December 31, 2016	Amounts in unrestricted net assets to be recognized during the next fiscal year
Net actuarial loss	$ (7,109)	1,309

Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees.

The following table sets forth changes to the Plan's benefit obligation, plan assets, and funded status (included in other noncurrent liabilities) as of December 31, 2016 and 2015, the measurement dates (in thousands):

		Year ended December 31	
		2016	**2015**
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	(56,052)	(61,180)
Service cost		(425)	(250)
Interest cost		(2,147)	(2,152)
Actuarial gain (loss)		(1,306)	1,810
Plan settlements		4,929	5,343
Benefits paid		466	377
Projected benefit obligation at end of year		(54,535)	(56,052)
Change in plan assets:			
Fair value of plan assets at beginning of year		43,272	49,887
Actual return on plan assets		2,159	(895)
Contributions made		1,300	—
Plan settlements		(4,929)	(5,343)
Benefits paid		(466)	(377)
Fair value of plan assets at end of year		41,336	43,272
Net amount recognized as accrued pension cost included in other noncurrent liabilities	$	(13,199)	(12,780)

The accumulated benefit obligation for the Plan was approximately $54,535,000 and $56,051,000 at December 31, 2016 and 2015, respectively.

The following table summarizes components of net periodic pension cost of the Plan (in thousands):

		2016	**2015**
Service cost	$	425	250
Interest cost		2,147	2,152
Expected return on plan assets		(2,376)	(2,703)
Settlement loss		642	602
Amortization of net loss		87	—
Net periodic pension cost	$	925	301

Weighted average assumptions used to determine net periodic pension cost of the Plan are as follows:

	Year ended December 31	
	2016	**2015**
Discount rate	3.97%	3.65%
Projected rate of increase in future compensation levels	N/A	N/A
Expected long-term rate of return on plan assets	5.70	5.70

Weighted average assumptions used to determine benefit obligations of the Plan are as follows:

	Year ended December 31	
	2016	**2015**
Discount rate	3.84%	3.97%
Projected rate of increase in future compensation levels	N/A	N/A

Winter Haven expects to contribute $1,300,000 to the defined benefit pension plan in 2017.

The benefits expected to be paid in each year from 2017 to 2021 are approximately $4,460,000, $2,888,000, $3,103,000, $3,068,000, and $3,140,000, respectively. The aggregate benefits expected to be paid in the five years from 2022 to 2026 are approximately $16,101,000. The expected benefits to be paid are based on the same assumptions used to measure Winter Haven's benefit obligation at December 31, 2016 and include estimated future employee service.

The plan assets are administered by a trustee and are invested in the following percentages in various instruments at December 31, 2016: 49% fixed income, 22% domestic equities, 15% international equities, 9% hedge funds, and 5% Master limited partnerships (MLPs).

The table below summarizes the fair values of pension plan assets as of December 31, 2016 (in thousands) (note 2(p) for discussion of valuation methods):

		December 31, 2016	Fair value measurements at reporting date Level 1	Level 2
Asset category:				
Cash	$	15	15	—
Equity securities:				
U.S.		10,214	1,902	8,312
International		1,522	1,522	—
Fixed income securities:				
Core holdings		8,094	—	8,094
Long duration		9,254	—	9,254
Bank Loans Fund		861	861	—
		29,960	4,300	25,660
Accrued income		6		
Recorded at net asset value		11,370		
Total	$	41,336		

There were no transfers between levels during 2016.

The table below summarizes the fair values of pension plan assets as of December 31, 2015 (in thousands):

		December 31, 2015	Fair value measurements at reporting date Level 1	Level 2
Asset category:				
Cash	$	22	22	—
Equity securities:				
U.S.		12,438	2,216	10,222
International		2,262	2,262	—
Fixed income securities:				
Core holdings		10,527	—	10,527
Long duration		6,306	—	6,306
		31,555	4,500	27,055
Accrued income		2		
Recorded at net asset value		11,715		
Total	$	43,272		

There was a transfer of U.S. equities from level 1 to level 2 during 2015 due to pricing being available from an industry vendor instead of an exchange. There was also a transfer from level 2 to level 1 during 2015 due to the fund becoming registered on an exchange in 2015. During 2016, the Organization re-evaluated the investments reported using the net asset value per share to determine as to whether they have a readily determinable fair value. Based on this re-evaluation, certain investments previously recorded as net asset value and excluded from the fair value hierarchy in the amount of $29,000 as of December 31, 2015, are now included as level 2 investments.

The following pension plan assets have been estimated using the net asset value per share of the investments as of December 31, 2016 and 2015 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2016 and 2015.

	December 31		Redemption	Redemption
	2016	**2015**	**frequency**	**notice period**
Asset category:				
International small cap equity partnership (a)	1,555	2,332	Monthly	15 days
International emerging markets equity partnership (b)	1,569	1,975	Monthly	10 days
International equities partnership (c)	1,562	2,246	Monthly	15 days
Hedge fund of funds (d)	4,401		Semiannually	95 days
Master Limited partnerships (MLPs) (e)	2,283	5,162	Monthly	30 days
	$ 11,370	11,715		

(a) The international small cap equity partnership's investment objective is to outperform the MSCI EAFE Small Cap Market Index by investing in a portfolio of non-U.S. small cap equities.

(b) The investment objective of the international emerging markets equity partnership is to outperform the MSCI Emerging Markets Index, net of dividend withholding taxes, by investing in a portfolio of non-U.S. emerging market equities.

(c) The primary objective of the international equities partnership is to achieve long-term total return by investing in value equity securities of non-U.S. issuers, including emerging markets.

(d) The hedge fund of fund's objective is to develop and actively maintain an investment portfolio of long-term returns, with low volatility and downside protection qualities.

(e) The master limited partnership's investment objective is to seek absolute total return by investing directly or via long only equity swaps without leverage in income-producing publicly traded MLPs, with a particular focus on energy sector MLPs.

(10) Functional Expenses

The Organization's expenses are primarily related to providing healthcare services to the community. The Organization receives substantially all of its resources from providing healthcare services in a manner similar to a business enterprise, and its accounting policies conform to U.S. generally accepted accounting principles applicable to healthcare organizations.

(11) Subsequent Events

The Organization has evaluated events and transactions occurring subsequent to December 31, 2016 as of March 6, 2017, which is the date the combined financial statements were issued. Management believes that no material events have occurred since December 31, 2016 that require recognition or disclosure in the combined financial statements.

COMBINING INFORMATION

Schedule 1

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combining Balance Sheet Information

December 31, 2016

(In thousands)

Assets	BayCare Health System, Inc.	Bartow Regional Medical Center, Inc.	Winter Haven Hospital, Inc.	Combined Trinity Health BayCare Participants	Morton Plant Mease Health Care, Inc.	South Florida Baptist, Inc.	BCHS Insurance, Ltd.	Subtotal	Eliminations	Combined
Current assets:										
Cash and cash equivalents	$ 43,822	137	149	346	1,848	(3)	—	46,299	—	46,299
Collateral received for securities lending transactions	193,757	—	—	—	—	—	—	193,757	—	193,757
Investments held on behalf of others	29,253	—	—	—	—	—	—	29,253	—	29,253
Short-term investments	1,063	—	228	—	—	—	—	1,291	—	1,291
Assets limited as to use	—	—	—	2,729	—	—	—	2,729	—	2,729
Accounts receivable, net	53,836	6,748	34,464	180,952	121,062	14,794	—	411,856	—	411,856
Inventories	27,326	1,808	7,951	29,492	18,894	3,063	—	88,534	—	88,534
Prepaid and other current assets	41,653	223	4,413	8,645	5,410	785	1	61,130	(8,547)	52,583
Total current assets	390,710	8,916	47,205	222,164	147,214	18,639	1	834,849	(8,547)	826,302
Investments	3,604,494	—	64,494	—	—	—	—	3,668,988	—	3,668,988
Assets limited as to use	1,185	—		6,071	3	—	163,838	171,097	—	171,097
Property and equipment, net	249,518	46,309	147,077	935,014	622,376	47,164	—	2,047,458	—	2,047,458
Beneficial interest in net assets of foundations		—	14,228	31,070	96,300	7,944	—	149,542	—	149,542
Due from affiliates	(2,211,435)	(6,407)	(88,610)	922,195	1,289,080	99,278	—	4,101	(4,101)	—
Other assets	235,680	19,489	12,030	22,401	9,378	595	9,949	309,522	(210,963)	98,559
Total assets	$ 2,270,152	68,307	196,424	2,138,915	2,164,351	173,620	173,788	7,185,557	(223,611)	6,961,946
Liabilities and Net Assets										
Current liabilities:										
Accounts payable and accrued expenses	$ 117,772	2,558	10,074	35,180	38,916	3,850	7,255	215,605	(8,547)	207,058
Employee compensation and benefits	193,462	1,112	7,641	35,354	27,938	2,776	—	268,283	—	268,283
Estimated third-party settlements	—	185	6,591	(4,579)	35,453	(805)	—	36,845	—	36,845
Current portion of long-term debt	22,168	207	850	201	763	—	—	24,189	—	24,189
Long-term debt, subject to short-term put arrangements	195,965	—	—	—	—	—	—	195,965	—	195,965
Liabilities for investments held on behalf of others	29,253	—	—	—	—	—	—	29,253	—	29,253
Liabilities under securities lending transactions	193,757	—	—	—	—	—	—	193,757	—	193,757
Total current liabilities	752,377	4,062	25,156	66,156	103,070	5,821	7,255	963,897	(8,547)	955,350
Long-term debt, less current portion	920,301	1,379	207	322	5,194	—	—	927,403	—	927,403
Other liabilities	150,696	70	18,249	76,770	503	488	149,682	396,458	(4,512)	391,946
Total liabilities	1,823,374	5,511	43,612	143,248	108,767	6,309	156,937	2,287,758	(13,059)	2,274,699
Net assets:										
Unrestricted	446,778	62,796	146,269	1,971,323	1,980,536	163,718	16,851	4,788,271	(210,552)	4,577,719
Temporarily restricted	—	—	5,577	19,317	47,090	3,593	—	75,577	—	75,577
Permanently restricted	—	—	966	5,027	27,958	—	—	33,951	—	33,951
Total net assets	446,778	62,796	152,812	1,995,667	2,055,584	167,311	16,851	4,897,799	(210,552)	4,687,247
Total liabilities and net assets	$ 2,270,152	68,307	196,424	2,138,915	2,164,351	173,620	173,788	7,185,557	(223,611)	6,961,946

See accompanying independent auditors' report.

Schedule 2

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combining Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2016

(In thousands)

	BayCare Health System, Inc.	Bartow Regional Medical Center, Inc.	Winter Haven Hospital, Inc.	Combined Trinity Health BayCare Participants	Morton Plant Mease Health Care, Inc.	South Florida Baptist, Inc.	BCHS Insurance, Ltd.	Subtotal	Eliminations	Combined
Operating revenue:										
Patient service revenue (net of contractual adjustments and discounts)	$ 448,835	55,503	317,985	1,662,261	1,200,690	142,407	—	3,827,681	(16,615)	3,811,066
Provision for bad debts	(27,481)	(8,331)	(25,222)	(115,408)	(68,945)	(14,209)	—	(259,596)	—	(259,596)
Net patient service revenue less provision for bad debts	421,354	47,172	292,763	1,546,853	1,131,745	128,198	—	3,568,085	(16,615)	3,551,470
Other revenue	456,893	264	5,737	39,385	23,909	917	—	527,105	(401,824)	125,281
Total operating revenue	878,247	47,436	298,500	1,586,238	1,155,654	129,115	—	4,095,190	(418,439)	3,676,751
Operating expenses:										
Salaries and benefits	647,143	22,354	133,817	590,437	434,455	48,159	—	1,876,365	(17,233)	1,859,132
Supplies	78,322	9,019	63,613	281,641	225,489	23,050	—	681,134	—	681,134
Other expenses	199,181	13,296	59,339	356,776	271,625	30,391	—	930,608	(356,330)	574,278
Depreciation and amortization	45,552	3,487	15,335	89,382	48,151	5,273	—	207,180	—	207,180
Interest	36,783	129	2,524	18,505	13,724	1,295	—	72,960	(36,738)	36,222
Total operating expenses	1,006,981	48,285	274,628	1,336,741	993,444	108,168	—	3,768,247	(410,301)	3,357,946
Operating (loss) income	(128,734)	(849)	23,872	249,497	162,210	20,947	—	326,943	(8,138)	318,805
Nonoperating gains (losses), net:										
Investment income, net	273,466	—	4,634	17	23	—	3,222	281,362	—	281,362
Gain on interest rate swaps	3,462	—	1,397	—	—	—	—	4,859	—	4,859
Other nonoperating (losses) gains, net	(1,602)	(6)	324	272	7,311	856	—	7,155	(290)	6,865
Total nonoperating gains (losses), net	275,326	(6)	6,355	289	7,334	856	3,222	293,376	(290)	293,086
Excess (deficit) of revenue and gains over expenses	146,592	(855)	30,227	249,786	169,544	21,803	3,222	620,319	(8,428)	611,891

(Continued)

Schedule 2

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combining Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2016

(In thousands)

	BayCare Health System, Inc.	Bartow Regional Medical Center, Inc.	Winter Haven Hospital, Inc.	Combined Trinity Health BayCare Participants	Morton Plant Mease Health Care, Inc.	South Florida Baptist, Inc.	BCHS Insurance, Ltd.	Subtotal	Eliminations	Combined
Unrestricted net assets:										
Excess (deficit) of revenue and gains over expenses	$ 146,592	(855)	30,227	249,786	169,544	21,803	3,222	620,319	(8,428)	611,891
Net unrealized losses on other-than-trading securities	—	—	—	(28)	—	—	—	(28)	—	(28)
Net asset transfers (to) from joint operating agreement participants, net	(4,659)	—	—	(90,257)	89,363	5,553	—	—	—	—
Net assets released from restrictions for capital additions	—	—	—	1,245	4,050	90	—	5,385	—	5,385
Amortization of accumulated hedge accounting losses	458	—	—	—	—	—	—	458	—	458
Pension-related changes other than net periodic pension cost	—	—	(991)	2,148	—	—	—	1,157	—	1,157
Transfer (to) from affiliates	15,714	—	(10,839)	(6,087)	1,212	—	—	—	—	—
Other	(10,584)	63,651	—	—	—	—	11	53,078	(55,866)	(2,788)
Increase in unrestricted net assets	147,521	62,796	18,397	156,807	264,169	27,446	3,233	680,369	(64,294)	616,075
Temporarily restricted net assets:										
Contributions	—	—	3	95	247	10	—	355	—	355
Net unrealized gains on other-than-trading securities	—	—	—	38	—	—	—	38	—	38
Change in beneficial interest in net assets of foundations	—	—	475	294	(1,918)	116	—	(1,033)	—	(1,033)
Net assets released from restrictions for operations and capital additions	—	—	(7)	(108)	(236)	(9)	—	(360)	—	(360)
Other	—	—	—	—	(2)	—	—	(2)	—	(2)
Increase (decrease) in temporarily restricted net assets	—	—	471	319	(1,909)	117	—	(1,002)	—	(1,002)
Permanently restricted net assets:										
Change in beneficial interest in net assets of foundations	—	—	—	71	1,471	—	—	1,542	—	1,542
Increase in permanently restricted net assets	—	—	—	71	1,471	—	—	1,542	—	1,542
Increase in net assets	147,521	62,796	18,868	157,197	263,731	27,563	3,233	680,909	(64,294)	616,615
Net assets at beginning of year	299,257	—	133,944	1,838,470	1,791,853	139,748	13,618	4,216,890	(146,258)	4,070,632
Net assets at end of year	$ 446,778	62,796	152,812	1,995,667	2,055,584	167,311	16,851	4,897,799	(210,552)	4,687,247

See accompanying independent auditors' report.